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*Eastern Europe*

## 2. USSR/EASTERN EUROPE: ECONOMIC COOPERATION STILL ELUSIVE

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The East Europeans are resisting the Soviet strategy of linking acceptance of ideological and institutional diversity within the bloc to closer economic ties with the USSR.

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Pattern of trade in 1986. East European exports to the USSR stagnated last year, while Soviet deliveries to Eastern Europe grew 6% in ruble terms--both far below the double-digit average rate of growth recorded during most of the 1970s and early 1980s. Eastern Europe's total deliveries were flat, despite expected increases in machinery and equipment deliveries scheduled for Soviet resource projects. As a result, Eastern Europe's ruble trade deficit with the USSR almost tripled in 1986 to about \$3.7 billion at the official exchange rate.

Soviet objectives. The Soviets want Eastern Europe to provide more goods to help revitalize and modernize the USSR's economy. The need for inputs from Eastern Europe has become more important as reduced world oil prices have slashed Soviet hard-currency earnings, restricting the ability to import from the West. The Soviets argue that if the East Europeans participate more in cooperation programs, joint ventures, and direct enterprise links, the bloc will raise the quality and quantity of its trade--providing a better buffer for all its members to shocks in the world trade system.

Accepting diversity? Gorbachev and Politburo member Ligachev have used recent trips to Czechoslovakia, Romania, and Hungary to endorse East European diversity in "building socialism." Soviet tolerance appears to be tied not only to the long-standing requirement of bloc unity on foreign policy but also to significant East European movement on economic cooperation. But Soviet calls for closer economic ties have led to little progress in joint ventures. Trade protocols already agreed on are even more discouraging for bilateral trade with the USSR:

- Soviet trade with Hungary, Poland, and Romania is scheduled to increase from 3 to 5% this year, compared with rates of 10 to 12% during 1975-84.
- Bulgaria and Czechoslovakia project rises of 2-3% in bilateral trade with the USSR in 1987 over 1986.
- Details of East Germany's 1987 trade plans with the USSR have not been revealed, but its 1986-90 protocol projects trade with the USSR to grow more slowly than Soviet trade with any other East European country.

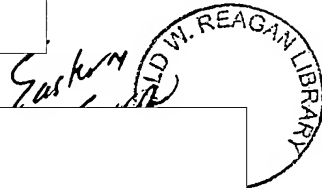
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Outlook. Conflicting national interests and inadequate administrative mechanisms are likely to impede Soviet efforts to establish joint ventures and increase economic cooperation in Eastern Europe. The Soviets hope that CEMA's comprehensive S&T program will push the East Europeans somewhat closer to the USSR over the medium term by pooling research efforts and rapidly assimilating scientific advances into production processes.

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